

## 07.

# THE EVOLVING SUSTAINABILITY LANDSCAPE

**2021 has been another challenging year for our community, our people and our business. The ongoing challenges of the COVID-19 pandemic, and the increasing awareness of the scale of transformation required for communities to operate more sustainably, can invite a temptation to adopt a reactive position – to wait for certainty and clarity before plotting a course. “At PFI, we recognise this is not the right approach for us,” says PFI Chief Executive Officer Simon Woodhams. “Instead, we have taken a proactive position by embedding sustainability in our culture so that we are pre-empting risks, acting on opportunities and taking responsibility for our impacts. This means being astute to changes and trends in the ever-evolving sustainability landscape and responding strategically.”**



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Tackling  
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**LUKE GLEN**  
Senior Property  
Manager

#### **The drive to reduce emissions**

During 2021, we observed the New Zealand Government’s publication of its first draft emissions reduction plan, which sets out sector-based policies and strategies to reduce greenhouse gas emissions. Most relevant for PFI is the Government’s ambition to reduce both the operational and embodied carbon emissions of buildings, which MBIE will lead through its Building for Climate Change programme. Operational emissions stem from the everyday use of a building, while embodied emissions largely relate to materials and products that form the building itself. PFI seeks to address both operational and embodied emissions. During 2021, PFI began work to replace its heating, ventilation and air-conditioning (HVAC) systems that use R22 refrigerant gas (which depletes the ozone layer and has a high global warming potential) in order to reduce operational emissions. This is complemented by a focus on embodied emissions through creation of a new framework for completing building refurbishments in a more sustainable way and preparations to seek Green Star certification for major new developments.

“Tackling operational and embodied emissions is complex and challenging,” says Luke Glen, Senior Property Manager at PFI. “We may not see an immediate drop in our emissions, but over the long run, doing this well will significantly reduce our environmental impact and directly support the ability of our tenants to reduce theirs. It’s worth the investment.”

With sustainability being front of mind for many tenants, PFI has an opportunity to work with tenants to add value in a sustainable way. Notably, sustainable practices played a key role in PFI securing a lease renewal to Electrolux at 3-5 Niall Burgess Road during 2021.

**ELECTROLUX  
AT  
3-5  
NIALL  
BURGESS  
ROAD**

When Electrolux's lease at 3-5 Niall Burgess Road was due for renewal, sustainability was front of mind for them when considering their future requirements. PFI was able to offer a proposal to retain Electrolux as a tenant, by completing a refurbishment that enhances the operational efficiency of the existing building, while ensuring that we carefully manage the impacts of the refurbishment works. This includes:

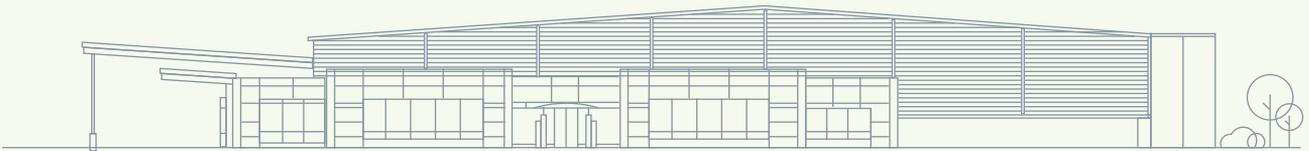
**Recycling or reuse  
of construction and  
demolition waste**



**Replacement of  
ozone-depleting R22  
air-conditioning units**



**Landscaping that  
employs sustainable  
design, planting and  
maintenance practices**



**This refurbishment  
is an important  
step in Electrolux's  
journey to reduce  
80% of our carbon  
emissions from  
operations by  
2025."**

**DAVID MAIR**

Head of Logistics  
ANZ, Electrolux Home  
Products Pty Ltd



**New energy-  
efficient  
LED lighting  
throughout the  
building**



**Water-efficient  
fittings**



**Low-VOC  
materials and  
finishes**



**Use of  
sustainable  
building  
materials**

Importantly, rejuvenating this existing building has a significantly lower environmental impact compared to developing a new building, as the majority of the steel and concrete is already in place. Refurbishing allows us to modernise the property, enhance functionality and create a more sustainable space for our tenants to enjoy for many years to come.

### **The impetus to respond to climate change**

As anticipated, publicly listed companies in New Zealand will soon be required to report their approach to climate-related risks under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill. The External Reporting Board (XRB) will provide reporting standards that align with the disclosures recommended by the Taskforce on Climate-related Financial Disclosures (TCFD). Before this legislation was introduced, PFI had already begun work to analyse, respond to, and report its climate-related risks and opportunities. Our second report in line with the TCFD recommendations can be found on pages 33–39. These disclosures enable our lenders, investors and other stakeholders to understand how the potential effects of climate change could impact our business, and how we are addressing those risks.

“For PFI, TCFD isn’t just a compliance exercise,” says Sarah Beale, Head of Sustainability and Operations at PFI. “It’s an opportunity for us to understand the impacts of climate change on our business and ensure that we are setting ourselves up to continue to build on PFI’s strong legacy of performance. We know that changes are coming so we are preparing for that, while also continuing to stay true to the things that make PFI such a strong and stable company.”

### **The growth of sustainable investment**

ESG-aligned investing has markedly increased. From a global perspective, the assets managed by the 3,826 signatories to the Principles for Responsible Investment (PRI) rose by 17% from US\$103 trillion to US\$121 trillion in the 12 months to 31 March 2021.<sup>1</sup> The PRI is a United Nations-backed network of international investors working to implement rigorous ESG-based principles into their investment decisions. Domestically, the market for responsible investment rose to \$142 billion of assets under management in 2020 – a jump of 28% on 2019 levels.<sup>2</sup> A natural consequence of the growing demand for responsible investment opportunities is the need for high quality ESG information. At PFI, we report on sustainability in accordance with the disclosures required under the GRI Standards – the most widely used sustainability reporting standards globally. We have also standardised our carbon emissions disclosures through the Carbon Disclosure Project and align our reporting of climate-related risks with the recommendations of the TCFD. According to Craig Peirce, Chief Finance and Operating Officer at PFI, the consistency and comparability of non-financial information over time is essential for investors considering ESG performance. Peirce notes that PFI’s work to date on disclosures ensures that the Company is well positioned to support this.

Within this landscape, we also cannot ignore the growing social pressures that seek to hold decision makers to account, both at the political level and for private enterprise. We recognise our obligation to address our impacts and prepare PFI for current and future sustainability challenges. Through robust strategic decision making, collaboration and preparation, we are confident that PFI will effectively navigate the evolving sustainability landscape and continue delivering for our investors and other stakeholders. ■

1. PRI, 2021. Annual Report 2021, Enhance our global footprint. Retrieved from <https://www.unpri.org/annual-report-2021/how-we-work/building-our-effectiveness/enhance-our-global-footprint>, Nov 2021.

2. Responsible Investment Association Australasia, 2021. Responsible Investment Benchmark Report 2021, New Zealand. Retrieved from <https://responsibleinvestment.org/resources/benchmark-report/>, Nov 2021.

# STEPS TOWARDS A SUSTAINABLE HORIZON

**The purpose of this report is to transparently communicate the positive and negative impacts we have on people and planet, to explain how we are addressing such impacts, and to provide insight into our sustainability-related risks and opportunities.**

## STRATEGIC THEMES



**Taking care of our team**



**Looking after our tenants**



**Responsible property ownership**



**Delivering for our investors**

## OVERVIEW

In 2019, we ventured out to create an approach to sustainability that aligns with PFI's purpose: to generate income for investors and long-term prosperity for New Zealand. Notably, this included measuring our greenhouse gas (GHG) emissions for the first time and setting a baseline year from which to evaluate progress. 2020 saw us enhance our health and safety systems, expand the scope of our GHG emissions measurement, formally assess our exposure to climate-related risks and opportunities, and support our most vulnerable tenants affected by the COVID-19 pandemic. We also committed \$2 million to phase out especially harmful refrigerant gases from our heating, ventilation and air-conditioning (HVAC) systems. Our primary focus in 2021 has been to:

- begin replacing the environmentally harmful refrigerant gases with a more modern gas that has a much lower impact on the environment;
- take positive steps to address our indirect carbon emissions associated with our supply chain;
- support our tenants, our team and our communities with the ongoing challenges of the COVID-19 pandemic; and
- further build our capability to evaluate and respond to climate-related risks.

In terms of our impact on people and planet, we remain clear that meeting our ambitions will require long-term commitment, long-term thinking and no shortage of hard work. We are confident that our approach will enable PFI to mitigate risks and capitalise on opportunities for long-term value creation. 2021 marks a positive series of steps towards a sustainable horizon.

## TAKING CARE OF OUR TEAM

We know that taking care of our team and wider community is an essential part of our sustainability approach, and by doing so, we are able to ensure that we attract and retain a talented and effective workforce.

### Team health, safety and wellbeing

The risks to health, safety and wellbeing for our head office team include those associated with the office environment (such as psychological stress and ergonomics) and those associated with site visits. Risk management initiatives for our head office team include:

- staff induction and ongoing training;
- provision of ergonomically designed workstations;
- a staff wellbeing programme that includes funding for periodic health checks and access to a clinical psychologist;
- team engagement with the communities in which we operate;
- safety protocols for site visits; and
- governance and incident management through our Office Health & Safety Committee.

### TEAM WELLBEING SUPPORT



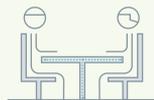
To support wellbeing during the COVID-19 lockdown, we set our team up with home office equipment, provided mental health support, and provided an additional day of annual leave.

### AUCKLAND CITY MISSION



We donated \$5,000 to the Auckland City Mission for food parcels to support vulnerable communities during the 2021 COVID-19 lockdown. We also decided to gift over 300 boxes of cookies to the Mission that we would normally send out as Christmas gifts due to unprecedented demand from people in need at Christmas.

### STAFF SURVEY



PFI has a growing team. We sought to understand our strengths and development areas using a staff survey to ensure we can continue to attract and retain a talented team. We achieved a 100% participation rate and staff engagement score of 83%.

### KEYSTONE NEW ZEALAND PROPERTY EDUCATION TRUST



PFI provided \$10,000 in sponsorship funding during 2021 as part of our continued support for the Keystone New Zealand Property Education Trust. The Trust provides opportunities to students with financial need or adverse circumstances to pursue tertiary studies in the property sector.

## LOOKING AFTER OUR TENANTS

### COVID-19 support

The COVID-19 pandemic has continued to present an array of challenges for businesses during 2021. This year, as in 2020, we sought to balance support for our tenants with our obligations to our other stakeholders. As the economic impacts of COVID-19 are not felt in equal measure across all businesses and industries, we provided rent abatement and deferrals to our tenants that experienced the most hardship.

	2021	2020
Abatements	\$0.7m	\$0.9m
Rent deferrals	\$0.2m	\$0.6m
% of annual rental income	0.9%	1.8%

### Health, safety and wellbeing framework

PFI has implemented a formal health, safety and wellbeing framework that provides a practical and enduring system to ensure that our approach to health, safety and wellbeing goes beyond adherence to the Health and Safety at Work Act 2015. The framework sets out our objectives, policies, risk management controls and responsibilities across our team. The framework is reviewed annually, approved by our Chief Executive Officer and overseen by our Health & Safety Committees.

The health and safety incidents in the table below reflect incidents that were reported to us across our operations during 2021:

H&S INCIDENTS	2021	2020
Incidents that did not result in injury	8	11
Injuries	8	4
Total recorded incidents	16	15

### Property risk management

The development, maintenance and ongoing management of our properties present a range of risks to our tenants and visitors to those properties, such as those arising from electrical hazards, roof access, contaminants and fire risks. Risk management initiatives for our properties include:

- prequalification requirements and induction for contractors;
- periodic and independent property risk assessments;
- asbestos management protocols;
- requirements for safety plans and site inspections for development projects; and
- governance and incident management through our Property Health & Safety Committee.

### Hazard management

Hazards are identified through physical inspections, qualitative assessments, and analysis of accidents and near misses. Identification exercises are required following major changes, and hazards must be evaluated and recorded in a hazard register. Competency for hazard management and incident response is ensured through induction and routine training. Procedures for hazard management, such as corrective action, hierarchies of control and reporting, are monitored for improvement by our Health & Safety Committees and align with WorkSafe New Zealand standards.

At the end of 2020, our hazard register identified 125 high-risk landlord hazards that predominantly concerned electrical hazards and hazards from working at heights. High-risk hazards may cause extensive injuries or long-term serious illness and have a moderate to high chance of occurring. Collaboration with our facilities management partners in 2021 ensured that 90% of these hazards are now eliminated or, where not practicably possible, controlled, with work continuing on the remaining 10% which require tailored solutions, and new hazards identified through the year.

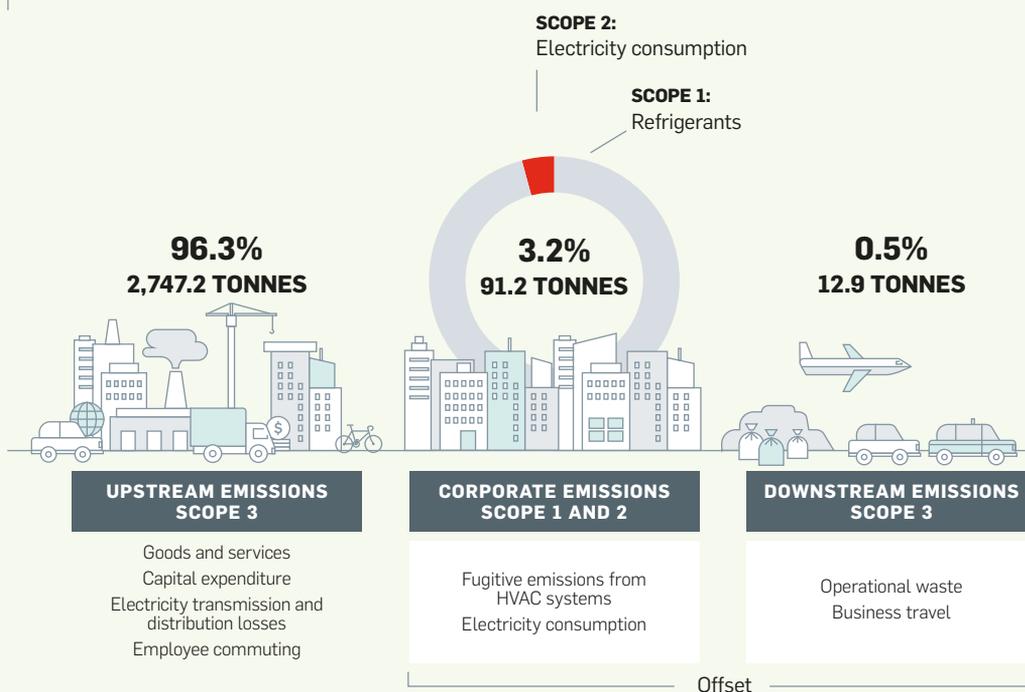
**OUR VALUE CHAIN  
EMISSIONS**

# 2,851.3

tonnes of CO<sub>2</sub>e

% TOTAL FOOTPRINT

EMISSIONS SOURCE



SCOPE	CATEGORY	FY19 (tCO <sub>2</sub> e)	FY20 (tCO <sub>2</sub> e)	FY21 (tCO <sub>2</sub> e)
<b>SCOPE 1</b>				
Direct Emissions	Fugitive emissions (refrigerants)	94.5	116.8	76.8
	Vehicle fuel	Covered under Category 6	Covered under Category 6	0.2
<b>SCOPE 2</b>				
Indirect Emissions	Electricity consumption (location based)	15.5	5.4	14.2
<b>Scope 1 and 2</b>	<b>Total Scope 1 and Scope 2 Emissions</b>	<b>110.0</b>	<b>122.2</b>	<b>91.2</b>
<b>SCOPE 3</b>				
Other Indirect Emissions	Category 1: Purchased goods and services <sup>(1)</sup>	Not measured in 2019	111.3	117.4
	Category 2: Capital goods <sup>(1)</sup>	Not measured in 2019	2,564.7	2,615.0
	Category 3: Energy and fuel	Not measured in 2019	0.5	1.2
	Category 5: Waste generated in operations	0.7	0.5	0.2
	Category 6: Business travel	19.8	9.4	12.7
	Category 7: Employee commuting	Not measured in 2019	15.1	13.6
	<b>Total Scope 3 Emissions</b>	<b>20.5</b>	<b>2,701.5</b>	<b>2,760.1</b>
<b>TOTAL Scope 1, 2 and 3 Emissions</b>		<b>130.5</b>	<b>2,823.7<sup>(2)</sup></b>	<b>2,851.3</b>

Overall, our emissions profile has not materially changed on 2020 levels.

(1) The emissions per \$ spend was calculated using an environmentally-extended input output (EEIO) model. An EEIO model estimates emissions based on category spend using data from allocating national GHG emissions to final products based on economic flows between sectors. The EEIO model is accepted by the GHG Protocol and is considered comprehensive but varies in its granularity. Our approach to emissions assessments may evolve over time as we mature.

(2) This year, we have restated our carbon footprint for FY20 due to an overstatement of Scope 3 emissions found when preparing this report. Category 1 emissions were originally reported as 215.2 tCO<sub>2</sub>e; they are restated here as 111.3 tCO<sub>2</sub>e. Category 2 emissions were originally reported as 3,565 tCO<sub>2</sub>e. They are restated here as 2,564.7 tCO<sub>2</sub>e. Total emissions reported in 2020 have therefore been restated as 2,823.7 tCO<sub>2</sub>e. The restatement stems from a calculation error that was identified while completing the FY21 carbon footprint calculations.

## RESPONSIBLE PROPERTY OWNERSHIP

The environmental impacts of developing and maintaining PFI's buildings largely derive from the materials used in construction and maintenance, and the refrigerants used in HVAC systems managed by PFI. Our stakeholders expect PFI to deliver strong environmental compliance and performance.

### Sustainability Policy

PFI's Sustainability Policy embeds sustainable thinking into our decision making through delegated roles and responsibilities covering everyone in our business. The policy includes triggers for engagement, such as when engaging with contractors or entering into lease agreements.

### Tackling fugitive emissions

Fugitive emissions from our HVAC systems remain the most significant emissions source from our direct operations. These emissions are released when the refrigerant gases used in our HVAC systems (including R22) leak directly into the atmosphere. Our use of R22 gas, a standard industry refrigerant, not only contributes to climate change but also damages the ozone layer. While the amount of R22 gas released into the atmosphere is small, its global warming potential is almost 2,000 times the potency of carbon dioxide, meaning refrigerants are our biggest opportunity to make meaningful reductions on our direct footprint.

We are committed to removing ozone-depleting R22 refrigerants from our portfolio that are within our operational control and replacing them with gases with a lower global warming potential. In 2020, we committed \$2 million to phase out the use of R22 gas from our portfolio over three years. During 2021, we invested \$688,000 on HVAC upgrades, fully removing systems that use R22 gas from 12 properties. This contributed to a reduction in our Scope 1 emissions during 2021. Our Scope 1 emissions decreased by 34% on 2020 levels, although we note that some of this change will be attributable to usual year-on-year fluctuations. This programme will run until the end of 2023, after which we commit to continuing to phase out R22 associated with new acquisitions.

### Tackling indirect emissions through sustainable design

Scope 3 emissions from goods and services expenditure and capital expenditure continue to represent our most material sources of indirect emissions. These emissions, in particular those that arise from our suppliers' construction-related activities, are considered a consequence of our operations. Avoiding and reducing indirect emissions in our supply chain is a complex and ongoing challenge. Reducing these emissions will require industry-wide collaboration and development of new technologies over time. That being said, one of the most impactful things we can do to reduce emissions is to extend the life of existing buildings because that greatly reduces the need to produce high-emitting materials like steel and cement – see our case study on page 23.

This year, we developed a sustainable refurbishment framework that prioritises low-impact materials and resource-efficient design features. The framework recognises that each refurbishment is unique and ensures we have a range of sustainable design options to consider for each refurbishment. We are seeing increased interest from existing and prospective tenants on sustainability. The intention of this framework is to prepare for, and capitalise on, such opportunities as they arise to incrementally reduce negative impacts across our portfolio.

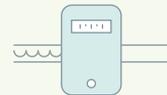
### A SUSTAINABLE REFURBISHMENT MIGHT INCLUDE:



**Reuse of existing building materials**



**LED lighting**



**Efficient water flow fittings**



**Reducing volatile organic compounds**



**Replacing HVAC systems that use R22 gas**



**Rainwater harvesting**



**Solar**



**Sustainable landscaping**



This year, we have begun engaging with our suppliers and contractors to create a pathway for seeking Green Star certification for future developments. The Green Star system evaluates a building across a range of categories, such as materials, emissions, and innovation, and has started to inform our future development and refurbishment decisions. For example, we have registered a development at 30-32 Bowden Road for Green Star certification, which will commence in 2023. Green Star ratings are administered by the New Zealand Green Building Council (NZGBC), a network of property and building businesses aiming to normalise market-based green practices. PFI is a member of the NZGBC.

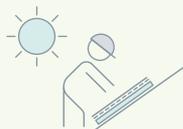


### Offsetting our residual impacts

Our primary ambition is to reduce our emissions through effective reduction initiatives before we look at offsetting. However, we are aware that despite our efforts to reduce our footprint, our operations will inevitably continue to affect the environment.

We therefore remain committed to measuring and offsetting our Scope 1, 2 and selected Scope 3 emissions through high-quality offsets and ensuring transparency for our stakeholders on our climate impacts.

We have offset our 2021 Scope 1, 2 and selected Scope 3 emissions<sup>1</sup> with certified carbon credits. These credits are sourced from projects that reforest, grow and protect forests in Aotearoa and the Pacific Islands and help to deliver climate resilience, waterways protection, erosion control, biodiversity conservation and community economic development<sup>2</sup>. These carbon credits have enabled us to achieve Net Zero Carbon Business Operations certification with Ekos for the 2021 financial year.



### Solar opportunities

This year, we investigated solar panel installation at selected PFI properties. While solar is a less-developed area of our ESG strategy, electricity price signals, emerging regulation and tenant demand suggest solar panel installation is a meaningful commercial opportunity aligned with our ESG strategy. We hope to pilot a solar panel project in 2022 and, going forward, we will ensure that the structural design of new developments allows for solar installation.



### Addressing seismic risk

We have a programme of work in place to assess (and where appropriate, improve) the seismic ratings of each property in our portfolio to reduce the likelihood of damage and harm as a result of earthquakes. This is a substantial programme spanning several years that addresses all earthquake-prone buildings and lifts them to B or A grade status. Seismic risk is also carefully considered when acquiring new properties as part of our due diligence process. When undertaking seismic upgrade work, we generally aim to lift the seismic rating of the property to A grade. During 2021, we completed several seismic upgrades and improved the ratings of six of our buildings to A grade.

1. Including waste, business travel, energy and fuel, and employee commuting; excluding goods and services and capital expenditure.

2. Carbon credits are retired on either the NZETS registry for New Zealand projects and the Markit registry for the Pacific project.

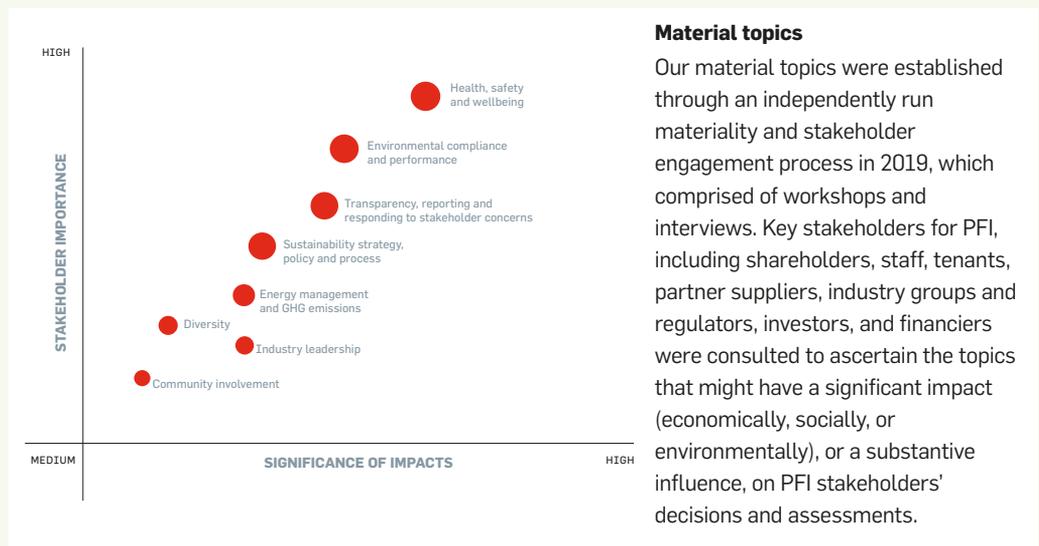
## DELIVERING FOR OUR INVESTORS

### Our ESG strategy

Since the adoption of our ESG strategy in 2019, we have made promising headway across our strategic themes, especially in terms of climate-related impacts and health and safety. However, we acknowledge the job is far from complete.

To date, our ESG strategy has helped to construct a useful platform, positioning PFI to adapt to change and build resilience. Since that strategy was created, there has been growing sustainability momentum in the external environment and sustainability has become a more embedded part of what we do at PFI. In 2022, we anticipate a refresh of our current ESG strategy, with an intention to simplify the framework, tighten our focus, reflect the interaction with our business strategy and understand how our stakeholders' expectations have changed over the last three turbulent years. The role that PFI will play in the collective movement of the global community to net zero by 2050 is a key sustainability consideration for PFI, and will form part of our thinking for this refresh. This may include the development of more comprehensive measurement and feedback systems, as well as an assessment of the technological levers accessible to support PFI's ambitions. For the purposes of evaluating our impact on people and planet in 2021, PFI's current materiality matrix remains relevant:

### PFI MATERIALITY MATRIX



### PFI ESG STRATEGY

#### PURPOSE

PFI generates income for investors as professional landlords to the industrial economy, generating prosperity for New Zealand

#### VISION

PFI will be one of New Zealand's foremost listed property vehicles. Our measures will be performance, quality, scale and reputation.

#### ESG PRIORITIES

Leadership — Strategy — Transparency — Diversity and Inclusion — Wellbeing Community — Environment — Climate

#### STRATEGIC PILLARS

Health, safety and wellbeing — Resource efficiency — Long-term thinking

#### STRATEGIC THEMES

Taking care of our team — Looking after our tenants — Responsible property ownership — Delivering for our investors

### Material topics

Our material topics were established through an independently run materiality and stakeholder engagement process in 2019, which comprised of workshops and interviews. Key stakeholders for PFI, including shareholders, staff, tenants, partner suppliers, industry groups and regulators, investors, and financiers were consulted to ascertain the topics that might have a significant impact (economically, socially, or environmentally), or a substantive influence, on PFI stakeholders' decisions and assessments.



### Improving our climate resilience

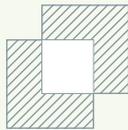
Both the physical and transition risks posed to people and planet by climate change are staggering. In 2020, we began to understand the exposure of PFI to climate-related risks and opportunities through our first TCFD-aligned assessment. To augment our second round of TCFD in 2021, we engaged S&P Global to help sharpen our understanding of the physical climate-related risks associated with individual properties. S&P Global's analysis indicated that, overall, PFI is exposed to low to moderate physical climate-related risks. Four properties have been assessed as having a heightened exposure to a particular climate-related hazard. This knowledge puts PFI in a good position to consider these hazards as part of asset management decisions such as future capital expenditure. The outcome of this assessment is pleasing because it validates conclusions drawn from 2020 that PFI's strategy remains robust to the impacts of climate change, provided we remain responsive to climate risks as they evolve.

A detailed account of how PFI manages physical and transitions risks can be found in our TCFD disclosures on pages 33–39.



### Enhancing sustainability due diligence for new acquisitions

PFI has always taken a thorough approach to due diligence for new acquisitions, considering things like seismic risk and tenant covenant and activity. Our work to understand PFI's climate-related risks and opportunities has further enhanced our approach and influenced PFI's decision making on new acquisitions. Climate change is now an additional lens for us to consider for the occupation and future upgrade requirements of a potential acquisition. The exposure of a property itself to climate-related physical hazards is also a significant consideration that has influenced PFI's decisions regarding acquisition activity during 2021.



### Maintaining our transparency

The Carbon Disclosure Project (CDP) is a globally recognised disclosure system that provides investors and other stakeholders with relevant information on climate impacts. Our second annual response to the CDP questionnaire achieved B-. This was an improvement on our 2020 submission, which scored a C. This indicates an improvement in how we measure, understand, and manage our greenhouse gas emissions over time.

